STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

PROFESSIONAL UNDERWRITERS LIABILITY INSURANCE COMPANY
OF
NAPA, CALIFORNIA

AS OF

DECEMBER 31, 2004

TABLE OF CONTENTS

June 28, 2006

Honorable Alfred W. Gross, Commissioner
Chair, Financial Condition (E) Committee,
National Association of Insurance Commissioners (NAIC).
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable D. Kent Michie, Commissioner
Secretary, Western Zone, NAIC
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, a full scope examination of the financial condition and business affairs of

PROFESSIONAL UNDERWRITERS LIABILITY INSURANCE COMPANY
of
Napa, California

a casualty insurance company, hereinafter referred to as (the Company), was conducted as of December 31, 2004.

SCOPE OF EXAMINATION

Period Covered by Examination

The Utah Insurance Department's (the Department) last financial examination of the Company was conducted as of December 31, 2001. The current examination covers the period from January 1, 2002, through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedure Employed

This examination was conducted under the association plan of the NAIC. The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, while also incorporating top-down, risk-focused examination techniques included in the current draft version on Risk Focused Examinations of the NAIC Financial Condition Examiners Handbook.

The initial phase of the examination was directed to evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate. Based upon the review, the following functional areas were selected for the examination's focus: Management, Underwriting, Reinsurance, Claims and Investments.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering the mitigating factors. Mitigating factors considered were corporate governance and control environment in addition to work performed by external and internal audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Work performed by the external and internal audit functions was also utilized and relied on to reduce examination procedures where considered appropriate. Planning and control questionnaires were available for the examination's use at the inception of the current examination.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and is included in the examination working papers.

A review of the Company's financial status subsequent to the examination period was performed and, the existence of the Company's assets held by its primary investment custodian was confirmed by the examination as of December 31, 2005.

The Company retained an independent certified public accounting (CPA) firm to audit its balance sheets for the years ended 2002, 2003, and 2004, and the related statements of income, equity and cash flow for the years then ended. Certified audit reports, accompanying financial statements, and supplemental information for all of the above three years were made available to the examination, including the work papers generated during the audits.

Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination

Adverse findings noted in the prior report of examination were either adequately addressed by the Company or are identified as repeat exceptions in this report. One recommendation made in the prior report of examination pertaining to accounting for reinsurance in accordance with the applicable reinsurance contracts requires further comment here. The prior report of examination recommended the Company correctly account for reinsurance in accordance with the applicable reinsurance contracts. Several deficiencies in the Company's reinsurance accounting occurred during the current examination period. During 2005 and 2006, efforts were made by the Company to correct prior reinsurance accounting errors. Reference section of this report captioned ACCOUNTS AND RECORDS – Reinsurance Accounting.

HISTORY

General

The Company was incorporated on September 19, 1989 as a stock insurance company, under the provisions of Utah Code Annotated (U.C.A.) Title 31. The Company's articles of incorporation stated that the purpose for which the corporation is organized is to "insure all risks." The Company's Certificates of Authority permit the transaction of accident and health, property, surety, liability, marine and transport, workers compensation, vehicle liability and professional liability lines of business in Utah, and liability business in California. The articles of incorporation and bylaws were not amended during the examination period.

Capitalization

As of December 31, 2004, 500,000 shares of common stock at par value of $10.00 per share with an aggregate value of $5,000,000 were authorized by the articles of incorporation and bylaws. All shares were issued and outstanding. The Company is wholly owned and controlled by The Doctors' Company (TDC), a California corporation.

Dividends to Stockholders

No dividends were paid to the stockholder during the period under examination.

Management

Article V, Section 1 of the Company's bylaws require the number of board of directors to be seven. Section 2 allows a majority of directors to govern the Company in the event of vacancies on the board until the next annual election and until the successor(s) are duly elected. Six directors served as of December 31, 2004, and only five were elected at the next annual election on May 5, 2005.

The following six individuals were serving as directors of the Company at December 31, 2004:

Name & Residence	Principal Business Affiliation
Richard E. Anderson, M.D. Delmar, California	Chairman of the Board of Governors The Doctors' Company
Jerrald R. Goldman, M.D. Lafayette, California	Governor The Doctors' Company
Mark Gorney, M.D. Napa, California	Governor The Doctors' Company
Robert Blair Sheppard Carmel, California	Governor The Doctors' Company
David M. Charles, M.D. Denver, Colorado	Governor The Doctors' Company

David B. Troxel, M.D. Lafayette, California	Governor The Doctors' Company

As of December 31, 2004, the following persons were serving as duly elected or appointed officers of the Company:

Richard E. Anderson, M.D.	Chairman
Steve Freedman	Vice President
Shannon L. Micevych	Assistant Vice President
Cheri Priddy	Assistant Vice President
Michael Yacob	Secretary and Treasurer
Gary E. Virkus	Assistant Secretary
Douglas C. Will	Treasurer

During May 2005, the directors elected David B. Troxel, M.D., as Secretary and David G. Priemesberger as Treasurer of the Company.

Other than a pricing committee established during September 2003, to determine the amounts, price and terms of surplus notes to be issued, the examinee's board has not established committees of directors, which function exclusively in the Company's interests. The pricing committee was not re-elected during 2004. TDC's board of governors and committees thereof perform functions for the subsidiaries of TDC. The Company is generally not identified separately in the minutes of the meetings of the Governors.

Governance

Initiatives implemented by the board of governors of TDC to address operational challenges and opportunities include: restructuring of management roles, creation of dedicated strategic planning and governance positions at the senior vice presidential level, implementation of an effective strategic planning process in which the governors actively participate, and strengthening of budgetary controls and employee incentives.

TDC's management was restructured during the examination period. Key changes in the management structure include the retirement of the president in 2003. He was not replaced. The chairman of the board of governors continued as the chief executive officer. New chief financial, governance, operating and information officers assumed responsibilities in 2004. The former secretary and treasurer assumed the role of senior vice president – strategic planning.

Conflict of Interest Procedure

The Company has a formal conflict of interest policy. This policy requires the directors, officers, and key staff members of the Company to file an annual disclosure statement which requests a declaration and disclosure of any material interest or affiliation which is in conflict or is likely to conflict with the individual's official duties at the Company.

A review of forms completed during the examination period disclosed no significant interests or affiliations that could be construed as a conflict or potential conflict of interest.

Corporate Records

The minutes of the meetings of the board of directors conducted during the examination period and committees of the TDC board of governors conducted during 2004 and 2005 were reviewed during the course of the examination. In general, the minutes adequately support and approve company transactions and events. The minutes disclose that a copy of the previous examination report was provided to the directors of the Company during a board meeting held December 11, 2003. Two matters of corporate governance were discovered relating to approval of agreements.

The Company's investment custodial agreement with Union Bank of California (UBOC), dated January 2, 2003, was not authorized by a resolution of the Company's board of directors or a committee thereof, as required by Utah Administrative Code (U.A.C.) Rule R590-178-4(B). Approval of the agreement was made by the TDC investment committee of the board of governors of TDC on April 26, 2006, in response to the examination exception.

The Company is a separate legal entity; therefore, its board of directors or an authorized committee thereof should approve all significant contracts into which the corporation enters. U.C.A. § 31A-5-407(6) states, "The board shall manage the business and affairs of the corporation and may not delegate it power or responsibility, except as authorized by Section 31A-5-412." U.C.A § 31A-5-412(1) allows the board to delegate its authority to one or more committees of directors, by resolution, if provided for in the articles or bylaws.

The agreement under which securities lending transactions at UBOC were conducted was not approved or authorized by the Company's board of directors or a committee thereof. Investments held under the custodial agreement with UBOC were used in securities lending transactions. The document specifying the conditions under which the securities lending transactions were conducted, was the Securities Lending Services Agreement Client Addendum Amendment and Restatement, executed between UBOC and The Doctors Company (TDC) on December 19, 2005. Pursuant to the securities lending agreement, TDC functioned on behalf of entities listed on a schedule to the agreement, one of which was the board of directors of the Company. The securities lending agreement effectively pertained to and modified the terms of the custodial agreement dated January 2, 2003.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company did not conduct or participate in any acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the examination period.

Surplus Debentures

Two $10,000,000 surplus notes were issued to nonaffiliated lenders during the examination period. One note was issued on September 30, 2003 and the other on April 29, 2004.

AFFILIATED COMPANIES

As of December 31, 2004, the Company was a member of a holding company system, pursuant to the provisions of U.C.A.§ 31A-16-105, and as previously noted, is owned 100% by The Doctors' Company (TDC). The Company has no ownership or partial ownership of any of the subsidiaries of TDC or any non-related entity. In addition to the Company, TDC exercises 100% ownership of eight other companies, some of which are involved with the operations of the Company pursuant to provisions of certain administrative and service agreements. The TDC Company holding company system is identified immediately below.

- The Doctors Company
  - Bernard Warshaw Insurance Sales Agency – 100% (Name subsequently changed to PULIC Insurance Services)
  - Napa Town Center – 100%
    - Napa Town Center Management, LLC – 100%
  - The Doctors' Management Company – 100%
  - TDC Holdings
  - The Doctors' Life Insurance Company – 100% (California domiciled)
  - Yountville Inn, LLC –50%
  - The Doctors' Company Insurance Services – 100%
    - TDCIS Equities Company – 100%
    - The Doctors' Insurance Services, Inc. – 100%
    - The Doctors' Company Insurance Services of Wyoming – 100%
  - Professional Underwriters Liability Insurance Company – 100% (Utah domiciled)
  - Underwriter for the Professions Insurance Company – 100% (UFTPIC – Colorado domiciled)

Agreements with Affiliates

As of December 31, 2004, the Company was a party to a management services agreement, an agency agreement and a consolidated federal income tax agreement with its affiliates as summarized below. It also contracted for reinsurance with its parent, TDC. (See REINSURANCE section.)

I. Management Agreement between The Doctors' Management Company (TDMC) and the Company – Effective September 10, 1993

Under the terms of this agreement, TDMC, agrees to provide the Company with personnel, office facilities, equipment and supplies, accounting services and financial reporting, and all management and supervisory functions as necessary for the operation of the Company, including underwriting, policy issuance/cancellation and premium collection.

Provision is made for the Company to reimburse TDMC, on a monthly basis, for the actual cost of all the services and facilities provided. The initial term of the agreement was for a one-year period, with automatic one-year renewals. The agreement may be terminated by either party, upon submission of a written notice to cancel at least ninety days prior to the annual renewal date.

A review of intercompany accounts and ledger entries posted in conjunction with this agreement disclosed that the cost allocations for the services provided and the expenses related thereto were allocated on a percentage of direct premiums written basis among the Company, TDC, and UFTPIC.

II. Binding Authority Agreement between PULIC Insurance Services formerly known as Bernard Warschaw Insurance Sales Agency (PULIC IS, Inc.) – Effective November 1, 2005 through October 31, 2008; Effective retroactive to September 20, 1989)

PULIC IS, Inc. has binding authority to conduct and manage the issuing of Certificates and/or Policies in the name of the Company, subject to limitations.

III. Federal Income Tax Filing (TDC): (effective 1992)

In accordance with an agreement between TDC and all its subsidiaries, the Company had filed consolidated federal income tax returns commencing with the calendar year 1992. The consolidated taxes reported were allocated to the members of the holding company group using the separate return basis.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2004, the minimum fidelity bond coverage recommended by the NAIC was $700,000 to $800,000 for the Company's exposure index. The Company was a named insured on a fidelity bond, which included TDC and all subsidiaries, with a coverage limit of $5,000,000, and a deductible amount of $125,000, which substantially exceeded the recommended coverage.

The Company was also a named insured on policies providing for directors and officers liability, and errors and omissions coverage.

PENSION AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans. Employee salaries and benefits were administered through a affiliate.

STATUTORY DEPOSITS

Statutory deposits as required by various state insurance departments as of December 31, 2004, are listed in the following schedule:

State	Type	Par Value	Market Value
Arkansas Insurance Department	Bonds	$ 275,000	$ 272,649
Delaware Insurance Department	Bonds	500,000	722,735
Louisiana Insurance Department	Bonds	125,000	131,016
Massachusetts Insurance Department	Bonds	700,000	754,356
New Mexico Insurance Department	Bonds	125,000	134,073
Nevada Insurance Department	Bonds	300,000	350,379
Oklahoma Insurance Department	Bonds	125,000	131,016
South Carolina Insurance Department	Bonds	150,000	160,980
Utah Insurance Department	Bonds	2,600,000	2,703,725
Totals		$4,900,000	$5,360,929

The deposits held on behalf of the Department met the requirements of U.C.A. § 31A-4-105, and § 31A-5-211(2), and were held for the benefit of all policyholders. The deposits held by the other states listed above were for the benefit of policyholders, claimants, and/or creditors of the Company in that jurisdiction only.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company specialized in writing high risk, nonstandard medical professional liability coverage. Coverage was written on a claims-made basis, with some prior act and tail coverage. Policies were issued for a maximum limit of $1,000,000 per claim, with a $3,000,000 aggregate limit per policy per year. The Company's net retained loss liability on all policies is 10% per loss and related expenses, with a maximum exposure of $100,000 per loss, and $300,000 annual aggregate, due to facultative placements and a 90% quota share reinsurance agreement with TDC.

Territory and Plan of Operation

The Company was licensed and authorized to transact insurance business in the states of Utah and California as of December 31, 2004. Authorized lines of business include: accident and health, property, surety, liability, marine and transport, workers compensation, vehicle liability and professional liability in Utah, and liability in California. Its records as of December 31, 2003 indicate it wrote business in thirty-six other states as a surplus lines carrier.

PULIC Insurance Services, Inc. is the Company's only general agent and the exclusive producer of its nonstandard medical malpractice business. The agency markets to brokers primarily and physicians secondarily. As of December 31, 2004, business was written through 220 different brokerages around the country.

Advertising and Sales Material

Advertisements target retail brokers who are looking for a specialty market for medical malpractice risks that cannot obtain coverage in the standard/preferred markets. Advertisements are run in industry publications. The Company's exclusive general agent also maintains an internet-site at www.pulicinsuranceservices.com.

A review of the advertising and marketing promotional materials utilized revealed no misleading statements or inconsistencies with the policies and products offered by the Company.

Treatment of Policyholders

Due to the nature of the medical malpractice risk insured, claims are generally settled or litigated. Control over policyholder complaints is exercised through the TDC Group complaint log. Six complaints against the Company were recorded for the period 2003 through 2005. Three of the complaints originated in California, one in North Carolina, one in Virginia and one in Washington. No complaints were made against the Company to the Department during the examination period. No issues pertaining to the unfair treatment of policyholders were observed during the examination's test of paid and case base claims.

REINSURANCE

Assumed:

As of December 31, 2004, the Company was party to one assumption agreement, which was effective July 1, 2000. Under the terms of this agreement, the ceding Company, Texas Medical Insurance Company (TMIC) ceded a 75% quota share of its net liabilities on physicians professional liability policies, which were issued on or after the effective date. TMIC retained 25% of each and every loss, and the Company accepts a 75% quota share not to exceed 75% of $1,000,000 each loss, each policy, each insured, and up to $3,000,000 each insured, in the aggregate each policy.

Ceded:

For the period July 1, 1995 to June 30, 2003, the Company ceded a 90% quota share of the initial $1,000,000 of its medical professional liability risks to its parent, TDC. Effective July 1, 2003, the Company ceded a 35% quota share of the initial $1,000,000 of "standard" risks and 90% of "nonstandard" risks to a nonaffiliated reinsurer. The nonaffiliated treaty was terminated on January 1, 2004. Effective January 1, 2004, the Company again ceded a 90% quota share of the initial $1,000,000 in medical professional liability risks to TDC.

The Company also purchases excess of loss coverage through an excess cessions agreement. This agreement provides $10,000,000 excess of $1,000,000. This agreement also includes coverage if multiple insureds are involved in the same loss event if all have purchased excess limits.

When multiple insureds are involved in the same event, and they have not purchased excess limits, coverage is provided by the $7,000,000 excess of $3,000,000 1st clash and contingency treaty. Contingency claims are defined as extra contractual obligations and/or loss in excess of policy limits (ECO/XPL) coverage at 90%.

An additional $10,000,000 of coverage is provided by the $10,000,000 excess of the $10,000,000 2nd excess clash and contingency treaty. The liability of the reinsurer for ultimate net loss shall not exceed $10,000,000 as respects any one occurrence, nor shall it exceed $20,000,000 as respects all occurrences commencing during the term of the contract. This treaty also provides ECO/XPL coverage at 90%.

The Company obtained reinsurance coverage as respects contingency claims through the quota share agreement with TDC and through First and Second Professional Liability Clash and Contingency Excess of Loss contracts with various nonaffiliated reinsurers.

The Company's ceded reinsurance program as of December 31, 2004, is summarized immediately below:

Coverage	Risks	Agreement	Reinsurer
$ 1,000,000	Written by Company	90% Quota Share	TDC
$ 2,000,000	ECO/XPL	90 % Quota Share	TDC
$ 7,000,000	ECO/XPL	Excess of Loss	Various Nonaffiliated
$10,000,000	ECO/XPL	Excess of Loss	Various Nonaffiliated

The 2002 and 2004 quota share agreements between the Company and TDC did not specifically provide for the reports of business and transactions, which serve as a basis for the agreements.

Statement of Statutory Accounting Procedures (SSAP) No. 62, paragraph 8.d, requires a provision for reports and remittances in reinsurance contracts.

ACCOUNTS AND RECORDS

Employees of an affiliate, TDMC, perform many functions necessary for the Company's operation. The Company's accounting records are primarily maintained on systems owned and operated by TDMC. Significant applications include:

Application Name	Application Function
Epicore	General Ledger and Accounts Payable
Star	Policy Accounting
Vista	Accounts Receivable/Billing (Standard Business)
Fox Pro	Agency Policy Accounting (Substandard Business)

A significant majority of the Company's business is produced through an affiliate general agent, PULIC Insurance Services. Company policy accounting, underwriting, premium processing and claims functions are performed at the agency on the FoxPro system. The agency electronic data processing system is online with TDC Napa. Policy data tables retained in FoxPro are generated online to TDC Napa on a monthly basis to be retained in a data warehouse.

The Company has an investment accounting services agreement with an external firm to perform the Company's investment portfolio accounting and valuation; including: transaction recording and review; cash processing, valuation of assets; regulatory (statutory) reporting; and ad-hoc client reports.

Reinsurance Accounting

In the 2005 Annual Statement Notes to Financial Statement #2.B, the Company disclosed that, through an internal review, errors in the way it accounted for intercompany reinsurance agreements were discovered. During 2005, $9,621,038 in premiums and $7,555,062 in loss and loss adjustment expenses were ceded to The Doctors Company (TDC) to correct the errors. The adjustments reflect the composite effect of six different issues. The documentation provided to the examiner did not clearly identify the amounts of the individual issues represented in the composite adjustment. Two of the issues pertained to reinsurance coverage not in place. There is evidence of the Company's intention that it be in place in the accounting treatment of the transactions and in related financial disclosures made.

The Summary and Recommendations section of the report of actuarial examination issued by the firm of Taylor-Walker & Associates (TWA), as of December 31, 2004, contains the following comments and recommendations pertaining to the above reinsurance accounting adjustments:

> "In the prior examination, we noted multiple issues and errors regarding the Company's reinsurance accounting. The examination report also included appropriate recommendations and adjustments relating to these issues. In late 2005, the Company acknowledged the errors and made sweeping corrections to prior years' reinsurance accounting. We acknowledge these improvements subsequent to the current examination date.

Some of the reinsurance corrections included a proposal by the Company to retrospectively revise, and in some cases, create reinsurance contracts between the Company and its affiliate, The Doctors Company (TDC). It is extremely difficult to separate the reinsurance adjustments into the portions that are applicable to corrections versus those that are attributable to the retroactive reinsurance. However, given our understanding of the underlying issues, it is our opinion that the majority of the adjustment is due to corrections to reinsurance that was established prospectively. Therefore, we recommend prospective accounting of all reinsurance transactions. Our reserve estimates reflect this intended reinsurance structure, as well as corrections related to other previously existing reinsurance agreements.

Finally, we recommend that the Company execute reinsurance contracts to support their intended reinsurance coverage."

On May 31, 2006, the Company executed a reinsurance agreement and an endorsement to a reinsurance agreement with TDC to formalize its intended reinsurance structure and facilitate corrections to errors in reinsurance accounting prior to December 31, 2004. The agreement extended from January 1, 1999 to July 1, 2000. The endorsement was to an agreement effective for the period July 1, 2002 to July 1, 2003. It extended the agreement to January 1, 2004. Since the agreement and endorsement are intercompany in nature, they should be formally submitted to the Department in a Form D filing.

On Page 8 of the TWA report of actuarial examination, it references SSAP No. 62 to further support the firm's conclusions. Paragraph 30.d provides that the primary accounting principals for retroactive reinsurance agreements shall not apply to intercompany reinsurance agreements, and any amendments thereto, among companies 100% owned by a common parent or ultimate controlling person provided there is no gain in surplus as a result of the transaction. Accordingly, the agreements shall be accounted for as prospective reinsurance agreements. There was no material gain in the surplus (after deduction of surplus notes) of either the Company or TDC as a result of the transaction. The net effect of the related adjustments on the surplus of the Company was a 2.6% loss. Considering the overall findings of the examination after review of the individual balance sheet accounts, 2.6% of surplus is not considered material. The net effect on the surplus of TDC was a .5% gain.

The examiner concurs with TWA. Prospective treatment of the accounting used for the correction of the referenced reinsurance accounting errors is not only consistent with the guidelines contained in SSAP No. 62, but is also the most expeditious method of implementing the corrections. Contracts should be executed or modified to reflect the intended reinsurance structure and facilitate the corrective initiatives made in 2005.

Additional Annual Statement Reporting Deficiencies

Item eleven of the general section of the Annual Statement Instructions promulgated by the NAIC states, "If the report does not contain the information asked for in the blanks or is not prepared in accordance with these instructions, it will not be considered filed." In addition, U.C.A. §31A-2-202(6) requires that "All information submitted to the commissioner shall be accurate and complete."

Some of the annual statement reports, exhibits and schedules were determined to be deficient or improperly prepared. Items of significance are listed below:

I. Two of the officers who signed the jurat page of the 2004 Annual Statement had not actually been elected to the positions until May 5, 2005. To insure compliance with U.C.A. § 31A-4-113, the information reported therein should be accurate at the time of reporting and filing with regulatory authorities.

II. The Company's adjustment for the under ceded premium in 2005 was made through current year income. SSAP No. 3, paragraph 13.B, requires that the corrections of errors in previously issued financial statements be reported as adjustments to unassigned funds in the period the error is detected. Pages in the 2005 Annual Statement initially filed were subsequently amended to reflect reporting guidelines in SSAP No. 3.

FINANCIAL STATEMENT

The Company's financial condition as of December 31, 2004, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2004
Underwriting and Investment Exhibit – Statement of Income
For the Year Ended December 31, 2004
Surplus – January 1, 2001 through December 31, 2004

The accompanying notes to financial statements are an integral part of the statements.

Professional Underwriters Liability Insurance Company
Balance Sheet
As of December 31, 2004
ADMITTED ASSETS

	Amount	Notes
Bonds	$ 83,542,879	
Cash and short-term investments	12,925,081	
Investment due and accrued	599,842	
Receivable for securities	6,976	
Uncollected premiums and agents' balances in course of collection	10,436,639	
Amounts recoverable from reinsurers	6,124,390	(1)
Net deferred tax asset	301,862	
Receivable from parent, subsidiaries and affiliates	221,759	
Profit sharing – Quota share	17,148,783	(5)
Total assets	131,308,211	

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	4,641,000	(3)
Reinsurance payable on paid loss and loss adjustment expenses	62,045	
Loss adjustment expenses	5,303,000	(4)
Other expenses, excluding taxes, licenses and fees	34,771	
Net deferred tax liability	14,797	
Taxes, licenses and fees, excluding federal income taxes	746,927	
Current federal and foreign income taxes	2,507,475	(6)
Borrowed money	226,933	
Unearned premiums	3,058,237	
Ceded reinsurance premiums payable	13,176,603	(2)
Funds held by company under reinsurance treaty	24,832,816	
Amounts withheld or retained by company for account of others	17,757	
Provision for reinsurance	415,969	
Payable to parent and affiliates	2,481,421	
Total liabilities	57,519,751	
Common capital stock	5,000,000	
Surplus notes	20,000,000	
Gross paid in and contributed surplus	16,500,000	
Unassigned funds (surplus)	32,288,460	(7)
Surplus as regards policyholders	73,788,460	
Total liabilities, surplus and other funds	$ 131,308,211	

Professional Underwriters Liability Insurance Company
Underwriting and Investment Exhibit
Statement of Income
For the Year Ended December 31, 2004

	Amount	Notes
Underwriting income:		
Premiums earned	$ 8,507,906	(2)
Deductions:		
Losses incurred	356,133	(3)
Loss expenses incurred	3,111,579	(1)(4)
Other underwriting expenses incurred	(4,581,918)	(5)
Total underwriting deductions	(1,114,206)	
Net underwriting gain or (loss)	9,622,122	
Investment income:		
Net investment income earned	636,919	
Net realized capital gains or (losses)	1,659,070	
Net investment gain or (loss)	2,295,989	
Other income:		
Net gain (loss) from agents' or premium balances charged off	0	
Aggregate write-ins for miscellaneous income -- other income	0	
Total other income	0	
Net income before dividends to policyholders	11,918,101	
Dividends to policyholders	0	
Net income, after dividends to policyholders but before federal and foreign income taxes	11,918,101	
Federal and foreign income taxes incurred	2,224,381	(6)
Net income	$ 9,693,720	

Professional Underwriters Liability Insurance Company
Surplus
January 1, 2002 through December 31, 2004

	2002	2003	2004	Notes
Surplus prior year	$ 37,686,346	$ 38,570,082	$ 58,798,695	
Net income (loss)	(9,836)	10,328,680	9,693,720	
Net unrealized capital gains (losses)	292,737	717	(10,265)	
Change in net deferred income tax	458,592	(246,286)	205,339	
Change in nonadmitted assets	(234,095)	197,560	(257,455)	
Change in provision for reinsurance	376,338	(52,058)	62,322	
Change in surplus notes		10,000,000	10,000,000	
Prior year under-ceded reinsurance Premium			(9,879,541)	(2)
Prior year under-ceded losses & LAE			5,175,645	(1)
Change in surplus as regards policyholders for the year	883,736	20,228,613	14,989,765	
Surplus, December 31, current year	$ 38,570,082	$ 58,798,695	$ 73,788,460	

COMMENTS ON FINANCIAL STATEMENT

Comments (1) and (2) reflect adjustments made to premium, paid losses and paid loss adjustment expenses by the Company during 2005 to correct reinsurance accounting errors made prior to 2005.

(1) Amounts recoverable from reinsurers — $6,124,390

"Amounts recoverable from reinsurers" was increased by $5,185,741 for paid losses ceded to TDC, to recognize the effect of the above referenced reinsurance accounting errors as of December 31, 2004 and prior periods. The Company's 2004 operating results were decreased by $10,096, for the amount of the adjustment pertaining to its 2004 "Loss expenses incurred". "Unassigned funds" (surplus) was directly increased by $5,175,645, for the amount pertaining to periods prior to the 2004 reporting year.

(2) Ceded reinsurance premium payable — $13,176,603

"Ceded reinsurance premium payable" was increased by $9,618,842 for premium ceded to TDC to recognize the effect of the above referenced reinsurance accounting errors as of December 31, 2004, and prior periods. "Premiums earned" in 2004 were increased by $260,699, for the amount pertaining to its 2004 operations. "Unassigned funds" (surplus) was decreased directly by $9,879,541 for the amount pertaining to periods prior to 2004.

(3) Losses — $ 4,641,000

The reserve for "Losses incurred," reported by the Company, was decreased by $2,385,611 to reflect examination adjustments recommended by the examination actuary (disclosed in ACCOUNTS AND RECORDS – Reinsurance Accounting).

(4) Loss adjustment expenses (LAE) — $ 5,303,000

The reserve for LAE reported by the Company was decreased by $2,853,199 to reflect examination adjustments recommended by the examination actuary (disclosed in ACCOUNTS AND RECORDS – Reinsurance Accounting).

(5) Profit sharing – Quota share — $17,148,783

The asset for Profit sharing – Quota share reported by the Company was increased by $3,650,510 to reflect examination changes in the loss and LAE reserve liabilities reported by the Company as they pertain to the quota share agreement with nonaffiliated reinsurers effective July 1, 2003 through December 31, 2003.

(6) Federal income tax $ 2,507,475

The Company's accrued liability for federal income taxes was increased by $1,559,678 to recognize the estimated effect of examination adjustments to operations related accounts on taxable income.

SURPLUS

(7) Surplus $ 73,788,460

The Company's surplus was determined to be $2,896,541 greater than reported. The following schedule identifies examination changes:

Account/Item Description	Per Company	Per Examination	Change In Surplus	Notes
Amounts recoverable from Reinsurers	$ 938,649	$ 6,124,390	$ 5,185,741	(1)
Ceded reinsurance premium Payable	3,557,761	13,176,603	(9,618,842)	(2)
Losses incurred	7,026,611	4,641,000	2,385,611	(3)
Loss adjustment expenses	8,156,199	5,303,000	2,853,199	(4)
Profit sharing –Quota share	3,498,273	17,148,783	3,650,510	(5)
Federal income tax	947,797	2,507,475	(1,559,678)	(6)
Total net adjustments			2,896,541	(7)
Capital & Surplus – Company			70,891,919	
Capital & Surplus – Examination			$73,788,460	

U.C.A. § 31A-5-211(2)(f) requires the Company to maintain minimum capital in the amount of $2,000,000. As of December 31, 2004, the Company's total adjusted capital, as adjusted by the examination, was $73,788,460. Its authorized control level risk based capital requirement, as reported in the 2004 Annual Statement, was $1,842,982. The restated authorized control level risk based capital requirement considering examination adjustments was $1,502,902.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. Initiatives to strengthen governance within The Doctors Company (TDC) group were implemented during the examination period. **(HISTORY – Management** - Governance)

2. The investment custodial agreement and the securities lending agreement were not approved or authorized by the Company's board of directors or a committee thereof as required by U.A.C. Rule R590-178-4(B).The board of governors of TDC approved the agreements on April 26, 2006, in response to the exceptions noted by examination. The Company is a separate legal entity. Its board of directors or a committee thereof, designated in its articles of incorporation or bylaws, should authorize or ratify all significant contracts the corporation enters into in order to be in compliance with U.C.A. § 31A-5-407(6). **(HISTORY – Corporate Records)**

3. The Company issued two $10,000,000 surplus notes to nonaffiliated lenders during the examination period. (**HISTORY – Surplus Debentures**)

4. The 2002 and 2004 quota share agreements between the Company and TDC did not specifically provide for the reports of business and transactions, which serve as a basis for the agreements. SSAP No. 62, paragraph 8.d requires a provision for reports and remittances in reinsurance contracts. (**REINSURANCE**)

5. During 2005, $9,621,038 in premiums and $7,555,062 in loss and loss adjustment expenses were ceded by the Company to TDC to correct errors in reinsurance accounting. (**ACCOUNTS AND RECORDS** – <u>Reinsurance Accounting</u>)

6. On May 31, 2006, upon recommendation of the examination, the Company executed a reinsurance agreement and an endorsement to a reinsurance agreement with TDC to formalize its intended reinsurance structure and to facilitate corrections to errors in reinsurance accounting prior to December 31, 2004. The agreement extended from January 1, 1999 to July 1, 2000. The endorsement was to an agreement effective for the period July 1, 2002 to July 1, 2003. It extended the agreement to January 1, 2004. Since the agreement and endorsement are intercompany in nature, they should be formally submitted to the Department in a Form D filing. (**ACCOUNTS AND RECORDS** – <u>Reinsurance Accounting;</u> <u>**COMMENTS TO FINANCIAL STATEMENT**</u>)

7. Additional annual statement reporting deficiencies were noted. (**ACCOUNTS AND RECORDS**)

8. U.C.A. § 31A-5-211(2)(f) requires the Company to maintain minimum capital of $2,000,000. As of December 31, 2004, the Company's total adjusted capital, as adjusted by the examination, was $73,788,460. Its authorized control level risk based capital requirement, as reported in the 2004 Annual Statement, was $1,842,982. The restated authorized control level risk based capital, considering examination adjustments, was $1,502,902. (**SURPLUS**)

CONCLUSION

The courteous assistance and cooperation extended by officers, employees, and representatives of the Company is acknowledged.

R. Glenn Taylor, ACAS, MAAA and Randall D. Ross, ACAS, MAAA, of Taylor-Walker & Associates, Inc., performed the actuarial phase of the examination and provided substantive assistance in the reinsurance phases. Colette M. Reddoor, CFE, Assistant Chief Examiner, supervised the examination. David Gaines, MBA, Financial Analyst, also participated in the examination.

Respectfully submitted,

John Kay, CFE
Examiner-in-Charge, representing the
Utah Insurance Department